

**FAIRFAX COUNTY PUBLIC SCHOOLS
457 (b) PLAN**

**Statement of Overall Investment
Objectives and Policy**



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FAIRFAX COUNTY PUBLIC SCHOOLS 457(b) PLAN

Statement of Investment Policy

Introduction

The Fairfax County Public Schools 457(b) Plan Committee (the “Committee”) hereby adopts this Statement of Investment Policy (Statement) for the Fairfax County Public Schools 457(b) Plan.

Objectives of the Plan

The Plan is long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. The investment options available from the Plan cover a broad range of investment risk and rewards appropriate for these kinds of retirement savings programs. Participants bear the risk and reap the rewards of investment returns that result from the investment options they select.

This Statement of Investment Policy serves the following purposes:

- To ensure that a broad range of investment options are offered to Plan participants;
- To establish an investment program that will allow Plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances;
- To define the investment categories offered by the Plan;
- To establish investment objectives and guidelines for each investment category offered within the Plan;
- To establish benchmarks and performance standards for each investment category and to evaluate each option’s performance against appropriate benchmarks and standards;
- To establish a procedure for reporting and monitoring of the various funds;
- To define the procedures for investment fund evaluation and formal fund review; and
- To set guidelines and procedures for withdrawal of an investment option which, in the Committee’s opinion, does not, or will not, fulfill the Plan’s objectives for which it was selected and replace the option with an appropriate substitute.

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Background and Plan Philosophy

For over 30 years, Fairfax County Public Schools (FCPS) has made available to all employees an Internal Revenue Code Section 403(b) program. The 403(b) program is a voluntary before-tax savings vehicle. FCPS does not contribute to the 403(b) program and has minimal administrative involvement. Employees enroll, select investments and make changes through a vendor agent. Currently, there are seven active vendors and four “frozen” vendors. Employees have hundreds, if not thousands, of investment options.

The Economic Growth and Tax Relief Reconciliation Act of 2001 expanded the before-tax savings opportunities for employees of entities like FCPS. To capitalize on this opportunity, FCPS solicited bids for an Internal Revenue Code Section 457(b) Deferred Compensation Plan vendor. The Selection Advisory Committee, assisted by consultants, selected one vendor. The Fairfax County Public Schools 457(b) Plan was effective September 1, 2004, and commenced accepting before-tax contributions from benefit-eligible employees in October.

The 457(b) Plan was designed to be both a complement and an alternative savings vehicle to the 403(b) program. The plans are complementary in the sense that employees may contribute to both. The 457(b) Plan represents an alternative to the 403(b) program as it differs in the way participants interact with the plan. The Plan was established with six investment options reflecting a concern that the 403(b) program offers an overwhelming number of choices. The six options, a stable value and five mutual funds, represent a wide spectrum of core investment choices offering participants different levels of risk and return. The objective is to sponsor a plan that is relatively simple to understand, cost effective for the participants and offers core investment options.

The philosophy of the Plan shall be a primary consideration in the Committee’s decision making process.

The Committee does not provide investment advice to participants or assist participants in selecting the funds in which to invest. Fiduciaries are not responsible for losses of participants resulting from the participant’s investment selection, or from any action taken in accordance with the participant’s investment direction.

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Investment Options and Categories

The authorized asset categories currently consisting of six core investment categories:

Category
Stable Value
Core Bond
Large Cap Blend Equity
Mid Cap Blend Equity (passive)
Small Cap Growth Equity
Foreign Equity

Each investment option offered under the Plan shall:

- Operate in full accordance with its current published prospectus or “fact sheet”;
- Have its performance results measured against the applicable performance standards described herein for that investment category.

If the Committee determines an investment option no longer meets the performance criteria, it will be closed and if the Committee deems appropriate, it will replace this option with a suitable alternative pursuant to the investment fund evaluation procedure outlined herein.

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Descriptions of the authorized investment categories are listed below:

Stable Value

Objective

The objective of this investment category is to preserve principal and provide a stable, competitive rate of return. A fund in this category invests in fixed income instruments, including those of the US Government and its agencies, corporations, mortgage and asset-backed securities, collateralized, emerging market, high yield, and preferred stock securities. This fund declares an annualized rate of interest at least semi-annually. In addition, because the Stable Value Fund is based on and guaranteed by the general account assets of Great-West Life & Annuity Insurance Company, a benchmark will not be used to measure the Fund's performance.

Core Bond Fund

Objective

The objective of this investment is to invest in income-producing securities, including corporate and US Government bonds, preferred stocks, income-producing common stocks, convertibles, and foreign securities. Investment returns are expected to be derived primarily from current income. This strategy is expected to achieve a rate of return that is comparable to, or better than, the performance of the Lehman Aggregate Bond Index over a market cycle or generally a period of three to five years.

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Large Cap Blend Equity

Objective

The objective of this investment category is to invest primarily in the common stock of large capitalization domestic companies considered by the fund manager to be undervalued relative to the market (value) or having average potential for capital appreciation (growth). Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income. The market capitalization range for this investment category will be in line with the capitalization classification determined by MorningStar. . This strategy is expected to achieve a rate of return that is comparable to, or better than, the performance of the S&P 500 Index over a market cycle or generally a period of three to five years.

Mid Cap Blend Equity (passive)

Objective

The objective of this investment category is to track the performance of the S&P Midcap400 Index by investing in common stock of the medium capitalization domestic companies comprising the Index. The S&P Midcap 400 Index is an equity composite of 400 small cap stocks and is maintained by the S&P Index Committee. The fund manager targets to match the index rather than attempt to outperform the index. Investment returns are expected to be derived primarily from capital appreciation and, to a lesser degree, dividend income. This strategy is expected to approximate the performance of the S&P Midcap 400 Index over a market cycle, or generally a period of 3 to 5 years.

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Small Cap Growth Equity

Objective

The objective of this investment category is to invest in the common stocks of small capitalization domestic companies considered by the fund manager to have above average potential for capital appreciation. Investment returns are expected to be derived primarily from capital appreciation. The market capitalization range for this investment category will be in line with the capitalization classification determined by MorningStar. This strategy is expected to approximate the performance of the Russell 2000 Growth Index over a market cycle, or generally a period of 3 to 5 years.

Foreign Equity

Objective

The objective of this investment category is to invest primarily in the common stock of companies located outside the United States. The Fund may invest in foreign securities traded on foreign exchanges. Investment returns are expected to be derived primarily from capital appreciation. Investments may be shifted among the various equity markets of the world outside of the United States. Assets may be invested in developed countries or developing countries. This strategy is expected to achieve a rate of return that is comparable to, or better than, the performance of the MSCI EAFE (Net) Index over a market cycle or generally a period of three to five years.

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Fund Performance Criteria

It should be noted that the Stable Value Fund would not be measured by the criteria outlined below due to the unique investment structure of the Fund. In addition, because the Stable Value Fund is based on and guaranteed by the general account assets of Great-West Life & Annuity Insurance Company, a benchmark will not be used to measure the Fund's performance.

The Committee will review and evaluate each investment fund, net of fees, for performance criteria at least quarterly. The criteria are as follows:

- **Performance => Benchmark*:** To equal or exceed the return of the specified benchmark over a full market cycle (3 and 5 year periods).

*For passively managed funds, the fund must equal or exceed the return of the specified benchmark within 75 bps, net of fees, over a full market cycle (3 and 5 year periods).

- **Universe Ranking => 50th Percentile:** To equal or exceed the median return of the peer universe over a full market cycle (3 and 5 year periods).
- **Risk Adjusted Performance => Universe Median:** To equal or exceed the Information Ratio of the peer universe over a full market cycle (3 and 5 year periods).
- **Upside Capture => Universe Median:** To equal or exceed the Upside Capture of the peer universe during the 5 year period.
- **Downside Capture =< Universe Median:** To equal or fall below the Downside Capture of the peer universe during the 5 year period.
- **MorningStar Rating => 3 Stars:** To equal or exceed a three star rating as determined by the MorningStar overall rating.

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- **Consistency of Style => 4 of 6 quarters:** A similar classification consistent with the investment category outlined in the Investment Policy as identified by the MorningStar Category for a period of 4 of 6 quarters.
- **Overall Pass/Fail:** The fund is measured against the 10 criteria listed above. At the end of each quarter, each fund must meet or exceed 6 of the 10 or 60.0% of the criteria in order to receive pass status. If less than 6 criteria are met or exceeded, the fund will receive a fail status.

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The following is a list of asset classes, benchmarks and universes that will be used in conjunction with the pass/fail criteria above for the options in the investment line-up.

<u>Asset Class</u>	<u>Benchmark</u>	<u>Mutual Fund Universe</u>
Stable Value Fund	Not Applicable	Not Applicable
Core Fixed Income Fund	Lehman Aggregate Bond Index	Core Fixed Income
Large Cap Blend Fund	S&P 500 Index	Large Cap Blend Equity
Mid Cap Blend Fund	S&P MidCap 400 Index	Mid Cap Blend Equity
Small Cap Growth Fund	Russell 2000 Growth Index	Small Cap Growth Equity
International Equity Fund	MSCI EAFE Index	International Equity

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Investment Fund Evaluation

The Committee, in its discretion, may conduct a formal review and evaluation of an investment fund at any time.

Normally, at the end of each quarter, the fund is measured against the 10 criteria outlined in the Fund Performance Criteria section. Each fund must meet or exceed 6 of the 10 or 60.0% of the criteria in order to receive a pass status. If less than 6 criteria are met, the fund will receive a fail status. If for one quarter, the fund has received a fail status, the fund will be placed on the Watch List. A fund that fails the criteria for four (4) consecutive quarters, will result in the fund going through the Sunset Policy and/or the completion of a search for a suitable alternative pursuant to the New Fund Selection Procedure defined in the context of this document

In addition, the Committee may place a fund through the Sunset Policy for any of the following reasons:

1. The fund has not met the performance standards under the Plan for the fund's investment category;
2. The fund has changed investment manager, or such change appears imminent;
3. The fund has had a significant change in ownership or control;
4. The fund has changed investment focus or has experienced style drift, departing from the investment objectives or parameters in its prospectus or "fact sheet";
5. The fund has violated a SEC rule or regulation;
6. The fund is determined to be inconsistent with the philosophy of the Plan.

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Sunset Policy

Sunsetting an option is defined through a three step process, which includes a fund being placed on the Watch List, Freezing a Fund and then Terminating a Fund. The Committee in its discretion may return a fund to any phase of the sunset policy.

Included below are descriptions of the three step process in the Sunset Policy.

A. Watch List

When a fund has been placed on the Watch List, the Committee shall conduct a detailed evaluation of the fund, its operations, and its performance. During the review, the Committee: 1) may suspend contributions to the fund from existing participants and 2) may close the fund to new enrollers. Upon completion of the evaluation, the Committee may continue the fund under the Watch List status, remove the fund from the Watch List, or Freeze the fund.

B. Freezing Fund

Assets in a Frozen Fund status remain fully invested and are subject to the investment performance of the fund. Assets in these funds are available to be liquidated as part of a fund transfer out, withdrawal, or distribution request from a participant's account. Through this process, the Committee: 1) will suspend new monies that may be deposited; 2) will close the fund to new enrollers; 3) must promptly notify the Plan's provider that the fund is being frozen; and 4) must promptly notify the Plan's participants who are currently investing in the fund that the Committee is freezing the fund and that new investment monies must be redirected to another fund option prior to the freezing date of the fund. Assets not transferred by participants to an alternate investment option by the freezing date will be automatically transferred to a replacement fund or a designated default fund.

Upon the completion of the freezing period (twelve months or less), the Committee may terminate the fund.

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C. Termination of Fund

Once a fund has been in the Frozen status for twelve months or less, the Committee may terminate the fund.

1. The Committee must promptly notify the Plan's provider that the fund is being terminated;
2. The Committee must promptly notify the Plan's participants who are currently investing in the fund that the Committee is terminating the fund as an investment option under the Plan and that:
 - a. All assets in the terminated fund must be transferred to another fund option prior to the termination date of the fund; and
 - b. Assets not transferred by participants to an alternate investment option by the termination date will be automatically transferred to a replacement fund or a designated default fund.

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New Fund Selection Procedure

If an investment option no longer meets the performance criteria as stated in the Fund Performance Criteria section, or one of the situations enumerated under the Investment Fund Evaluation section has occurred, and the Committee deems it necessary to provide a replacement fund, a search for a suitable alternative pursuant to the New Fund Selection Procedure defined below will be conducted.

The criteria below will be utilized in the selection of a new investment option.

- Initial selection of a fund will require that the fund shall have a three year return performance record in at least the top 50% of its respective group, based on its investment objective.
- Funds selected shall have been managed by the same person(s) or substantially the same group for at least the last three years.
- A minimum of three years of operation and history are required to be considered for selection. An institutional fund that has not acquired three years of operations can be assigned the years of operations and history of its retail copy, provided the fund has the same management and investment objectives.
- Funds with front and/or back end load fees that are paid by the participants will not be considered.
- The annualized rate of return, net of fees, for the most recent 3 and 5 year time periods must meet or exceed the relative market index (benchmark).
- The Information Ratio for the most current 3 year period must meet or exceed the 50th percentile of the Information Ratio of the peer universe of retail funds in the same asset class and investment style.
- The Upside Capture for the most recent 5 year period must meet or exceed the 50th percentile of the Upside Capture of the peer universe of retail funds in the same asset class and investment style.
- The Downside Capture for the most recent 5 year period must meet or fall below the 50th percentile of the Downside Capture of the peer universe of retail funds in the same asset class and investment style.

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- For index funds, the fund return for the most current 1, 3, and 5 year periods must match its benchmark within a range of plus or minus 0.5%.
- The fund must have a MorningStar Category Rating of three stars (average) or higher. An institutional fund without a MorningStar rating can be assigned the MorningStar rating of its retail copy.

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Reporting and Monitoring Procedures

The Committee will review the Plan at least annually with assistance from the consultant, including review of the following:

- Current trends and developments in the capital markets and investment management community (market review);
- The current level of diversification provided by the investment categories and options offered by the Plan under the core investment fund line-up (review of the correlation between investment categories and options);
- Changes in the investment management staff related to each investment option (organizational review);
- The continued consistency between the stated investment guidelines of each investment option and the Plan policies (review of the guidelines of each investment option);
- The compliance of each investment option with stated investment guidelines (review of the holdings and characteristics of each investment option), including style drift analysis;
- The compliance of each investment option's risk and return characteristics with the expectations stated herein (performance review).
- Any frozen investment option available to participants with assets invested, which will be benchmarked against appropriate indices.

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Review of Plan Investment Options

At least annually, the Committee will review the level of diversification between the investment options and the investment categories. The Committee may choose to add, change or delete investment options as a result of this analysis. With the exception of the Stable Value Fund, the Plan shall offer mutual funds.

Changes to Investment Policy

From time-to-time, the Committee, in its discretion, may add, change or delete sections of the Statement of Investment Policy. At such time, the Statement of Investment Policy will be modified to include those additions.

* * * * *

This Statement of Investment Policy is adopted by the Fairfax County Public Schools 457(b) Committee.

Signature/Title

Date

6029169v1/05670.019

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Selected Investment Options

Great-West Portfolio Fund

The Fund provides a guarantee of principal and a guaranteed quarterly interest rate. The entire general account assets of Great-West Life & Annuity Insurance Company back these guarantees. These Fund's assets are primarily invested in grade quality, fixed income bonds.

PIMCO Total Return Admin Fund (PTRAX)

The Fund's objective is to achieve a total return consistent with preservation of capital by investing at least 65% of assets in fixed income securities. Fixed income holdings include corporate debt, US government securities, mortgage-related securities, as well as up to 20% of fund assets in securities denominated in foreign currencies. Portfolio duration, a measure of price sensitivity to interest rate movements, generally ranges from three to six years.

Davis New York Venture (NYVTX)

The Fund seeks high-quality, well-managed businesses that can be purchased at value prices and held for the long term. The Fund also focuses on managing risk as the key to delivering reliable long-term investment results.

Columbia Mid Cap Index (NTIAX)

The Fund seeks investment results that correspond to the total return of the S&P MidCap 400 Index. The Fund will normally invest at least 80% of net assets in common stocks that are included in the S&P MidCap 400 Index. The Fund may also buy stock index futures and other financial futures as substitutes for the underlying Index securities. When attempting to match the performance of the S&P MidCap 400 Index, the portfolio manager will try to allocate the Fund portfolio among common stocks in approximately the same weightings as the Index, beginning with the most heavily weighted stocks that make up the larger portion of the value of the Index. In general, the Fund tries to achieve a correlation of at least 0.95 with the return on an annual basis (net of fees).

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Baron Growth Fund (BGRFX)

The Fund's objective is to seek capital appreciation. The Fund invests primarily in common stocks but may also invest in other equity securities such as convertible bonds and debentures, preferred stocks, warrants and convertible preferred stocks. It typically invests in small sized companies with market values under \$2.5 billion.

Artisan International Fund (ARTIX)

The Fund normally invests at least 65% of assets in equities of foreign issuers, ordinarily maintaining investments in at least three foreign countries. The Fund places equal emphasis on country selection and stock selection, avoiding markets it believes to be overvalued and focusing on companies that have dominant or increasing market share in strong industries. The Fund may invest in emerging markets. Not more than 5% of assets may be invested in convertible securities or debt rated below BBB.

Fairfax County Public Schools 457(b) Plan
Fund Evaluation Sheet
Quarter ended

Investment Managers					
Criteria	PIMCO Total Return Admin Fund	Davis New York Venture	Columbia Mid Cap Index Fund	Baron Growth Fund	Artisan International Fund
<i>Performance => Benchmark*</i>					
3 year					
5 year					
<i>Universe Ranking => 50th percentile</i>					
3 year					
5 year					
<i>Risk Adjusted Perf. => Universe Median</i>					
Information Ratio 3 year					
Information Ratio 5 year					
<i>Upside Capture => Universe Median</i>					
5 Year					
<i>Downside Capture =< Universe Median</i>					
5 Year					
<i>Morning Star Rating => 3 stars</i>					
Overall					
<i>Consistency of Style => 4 of 6 qtrs.</i>					
Morningstar Style Box Rating					
Overall Pass/Fail					
Must pass 6 of 10 criteria					

Recommendations

*For passively managed funds, the fund must equal or exceed the return of the specified benchmark within 75 bps, net of fees, over a full market cycle (3 and 5 year periods).